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SURFACE TRANSPORTATION BOARD

Decision

STB Ex Parte No. 290 (Sub-No. 5) (99-3)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Decided: June 17, 1999

In Railroad Cost Recovery Procedures, 1 I.C.C.2d 207 (1984), the Interstate Commerce Commission (ICC) outlined the procedures for calculating the all-inclusive index of railroad input prices and the method for computing the rail cost adjustment factor (RCAF). Under the procedures, the Association of American Railroads (AAR) is required to calculate the index on a quarterly basis and submit it on the fifth day of the last month of each calendar quarter. In Railroad Cost Recovery Procedures, 5 I.C.C.2d 434 (1989), aff'd sub nom. Edison Electric Institute, et al. v. ICC, 969 F.2d 1221 (D.C. Cir. 1992), the ICC adopted procedures that require the adjustment of the quarterly index for a measure of productivity.

The provisions of 49 U.S.C. 10708, which were recently revised by the ICC Termination Act of 1995, Pub. L. No. 104-88, 109 Stat. 803, direct the Surface Transportation Board (Board) to continue to publish both an unadjusted RCAF and a productivity-adjusted RCAF.¹ In Productivity Adjustment-Implementation, Ex Parte No. 290 (Sub-No. 7) (STB served Oct. 3, 1996), the Board decided to publish a second productivity-adjusted RCAF called the RCAF-5. Consequently, three indices are now filed with the Board: the RCAF (Unadjusted), the RCAF (Adjusted), and the RCAF-5. The RCAF (Adjusted), which reflects national average productivity changes as originally developed and applied by the ICC, is currently based on a 5-year moving average. The RCAF-5 reflects national average productivity changes as if a 5-year moving average had been applied consistently from the productivity adjustment's inception in 1989.

The index of railroad input prices, RCAF (Unadjusted), RCAF (Adjusted), and RCAF-5 for the third quarter 1999 are shown in Table A of the Appendix to this decision. Table B shows the first quarter 1999 index and the RCAF calculated on both an actual and a forecasted basis. The difference between the actual calculation and the forecasted calculation is the forecast error adjustment.

Both the RCAF (Adjusted) and the RCAF-5 are currently calculated using a moving 5-year average of productivity change for U.S. Class I railroads. An average productivity change rate of 1.057 (5.7% per year) for the period 1993-1997 is currently used for the RCAF (Adjusted). In accordance with Ex Parte No. 290 (Sub-No. 7), supra, the RCAF-5 will continue to use the 1992-1996 average productivity change rate of 1.097 (9.7%) until January 1, 2000.

¹ The RCAF provisions of former section 10707a were revised and redesignated as 49 U.S.C. 10708.

We have examined AAR's calculations for compliance with our procedures and find that the third quarter 1999 RCAF (Unadjusted) is 1.002, an increase of 0.9% from the second quarter 1999 RCAF of 0.993. The RCAF (Adjusted) is 0.586, a decrease of 0.5% from the second quarter 1999 RCAF (Adjusted) of 0.589. The RCAF-5 is 0.579, a decrease of 1.4% from the second quarter 1999 RCAF-5 of 0.587.

This decision will not significantly affect the quality of the human environment or the conservation of energy resources.

Pursuant to 5 U.S.C. 605(b), we conclude that our action will not have a significant economic impact on a substantial number of small entities within the meaning of the Regulatory Flexibility Act.

AUTHORITY: 49 U.S.C. 10708.

It is ordered:

1. The Board has approved the third quarter 1999 Rail Cost Adjustment Factor (Unadjusted) of 1.002, RCAF (Adjusted) of 0.586, and RCAF-5 of 0.579.
2. Notice of this decision will be published in the Federal Register.
3. The effective date of this decision is July 1, 1999.

By the Board, Chairman Morgan, Vice Chairman Clyburn, and Commissioner Burkes.

Vernon A. Williams
Secretary

APPENDIX

TABLE B

Ex Parte No. 290 (Sub-No. 5) (99-3)
Comparison of First Quarter 1999 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	1997 WEIGHT	FIRST QUARTER 1999 FORECAST	FIRST QUARTER 1999 ACTUAL
1	LABOR	41.0%	232.8	232.8
2	FUEL	8.6%	63.1	51.8
3	MATERIALS AND SUPPLIES	5.8%	147.7	147.7
4	EQUIPMENT RENTS	11.1%	173.8	173.8
5	DEPRECIATION	10.2%	149.8	149.2
6	INTEREST	3.9%	102.0	102.0
7	OTHER ITEMS	19.4%	155.5	155.5
8	WEIGHTED AVERAGE		178.2	177.1
9	LINKED INDEX		173.0	172.3
10	RAIL COST ADJUSTMENT FACTOR		99.9	99.5